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## Memorandum

To: Regional Director, PN, MP, UC, LC, SW, UM, LM  
Attention: Code 700 and 400

From: Commissioner (Sgt) R.N. Broadbent

Subject: Policy for Providing Service to Small Agricultural Tracts and Suburban Lands

This memorandum supercedes and replaces our April 15, 1982, memorandum. The section "Repayment Contract Procedures" has been rewritten to clarify how charges for small tracts are to be handled.

Reclamation law provides for two general types of water supply; irrigation and municipal and industrial (M&I). The law also provides for divergent methods of repayment; irrigation must be repaid without interest while M&I must be repaid with interest. Irrigation repayment also may be assisted with revenues from project power or M&I, if repayment ability of the irrigation users is insufficient to repay costs in a timely manner. The computation of benefits used in determining economic justification of the project also differ between these two project purposes. M&I benefits are based on the costs of the most likely alternative and irrigation benefits are measured by the increase in net farm income resulting from the project. In addition, the lands to be irrigated must be classified to determine their capability to support a family and pay water charges under a proper agricultural program.

Because of these differences, it is necessary to identify and separate irrigation and M&I water supplies in project planning and contracting. This separation normally does not present any problem, but occasionally, when a project contains small tracts that are used as part-time farms and/or rural residences, separating irrigation from M&I can be difficult. The water supply in question is usually, if not always, a seasonal supply used for irrigation. However, the irrigation often is only of lawns, shrubs, and home gardens; normal domestic uses. In some cases, the water is used on agricultural crops, but not of a magnitude that would support a farm family.

Problems arising relative to water service to small tracts within or bordering on urban or suburban areas impact both the planning and operating stages of a project, but are most apparent in situations where subdivision for residential development takes place on an operating project. This has resulted in project irrigation water service to small tracts that are at best, part-time, low-income farms, but more often they are suburban residences with no commercial sales of agricultural products. The problem often surfaces when a district submits an application for a loan under the Rehabilitation and Betterment (R&B) Act or the Small Reclamation Projects Act (SRPA).

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For repayment contracts written pursuant to the SRPA, a 2-acre minimum limit for tract size was used to define agricultural use. If service was provided to tracts of 2 acres or less, it was considered M&I use and provision was included in the contract to charge interest for such tracts. A "rollover" provision was included to permit water use to change from the interest-free agricultural use to the interest-bearing M&I use if the number of tracts of 2-acres or less in size increased during the payback period of the contract.

The Bureau's repayment policy has been revised to better define what constitutes a commercial farm operation. Rather than using solely the 2-acre demarcation, a gross sales criterion has been adopted to distinguish between water used for commercial agriculture, including the attendant domestic uses which would be interest free, and that used for ". . . domestic, industrial or municipal purposes, . . ." which should be interest bearing as set forth in SRPA.

In order to alleviate some of the problems associated with small tracts in writing new and amended repayment contracts, computing benefits, and classifying lands on existing or new projects, the following policy is hereby adopted:

1. Water provided to tracts of 2 acres or less and to tracts greater than 2 acres that would produce less than \$5,000 of gross annual sales of agricultural commodities, shall be treated as M&I service and charged appropriately. If it is not feasible for legal reasons to make the assignment to the M&I purpose, it may be a part of the irrigation purpose. The change would be in accordance with instructions on page 3 of this memorandum, "Repayment Contract Procedures."
2. Water furnished to tracts larger than 2 acres and capable of producing at least \$5,000 of gross annual sales of agricultural commodities can be considered eligible to obtain irrigation water and interest-free repayment. In planning new projects, these tracts must also meet the land classification test of arability. Lands being reclassified must also meet the arability test to qualify for irrigation water.

The gross sales value cited above is based on a recent publication of the United States Department of Agriculture.<sup>1/</sup> The study points out that, "The diversity in the contemporary farm sector suggests that future policies will need to be based on more careful identification of problems and targeting of the subgroups of farms that each policy is to treat." Four farm groupings related to gross farm sales were identified.

	<u>Gross Sales</u>
Rural residences and hobby farms	under \$2,500
Rural farm residences	\$2,500-\$5,000
Small farms	\$5,000-\$40,000
Primary farms	over \$40,000

1/ Agricultural-Food Policy Review: Perspective for the 1980's, USDA, EES, April 1981.

The report indicated that it might be practical to group everything under \$5,000 in gross sales together for the first group since those in this situation depend heavily on nonfarm incomes. It is also significant to note that the rural farm residences (under \$5,000 gross sales) encompass 44.4 percent of all farms today.

Even in the small farm group (\$5,000 to \$40,000), most produce too little to be able to rely fully or primarily on farming for livelihood and must depend on supplemental nonfarm income. Those in the "primary farm" group depend primarily upon farming for their living and produce most of the Nation's food and fiber.

#### Repayment Contract Procedures

For application of the small tract policy to repayment contracts, the following procedures are to be used.

The account charge for a project which has a single-purpose irrigation function, shall be established as set forth under item 1 of the October 8, 1982, memorandum "Guidelines for Repayment Contracts to Recover Funds Advanced to the Water Users under the Rehabilitation and Betterment (R&B) Act." Options 2 and 3, as set forth in that memorandum, may be used in lieu of the account charge but must be fully justified in the report or supporting documents.

When the account charge option is selected for projects that include an authorized M&I water use function, it will be necessary to establish the minimum size tract capable of generating \$5,000 or more annually in gross farm sales. For example, if that tract size is 4 acres, then any ownership less than 4 acres in size is considered to be used for noncommercial agricultural purposes and water service to those tracts is for domestic use. That part of the Federal loan associated with those lands is part of the service area for ". . . domestic, industrial and/or municipal purposes . . ." and will be interest bearing. Also, the contract will contain a rollover provision for covering an annual review of the proportion of the loan that will bear interest. Annual billings to the district will be made accordingly. The \$5,000 gross income test and the 4-acre demarcation, however, will remain fixed for the life of the contract unless it is amended or supplemented during the time the repayment obligation remains outstanding.

The account charge assessment will be applicable only to the ownerships in the remaining project area for which water is used primarily for irrigation. As you know, urban encroachment on the irrigated lands is common to many of our irrigation projects. This is due to the fact that such lands make good homesites because of the firm water supply. As a consequence, and over the term of the repayment contract, many irrigated farms have been subdivided as urbanization occurs. To the extent that such subdivision is less than

the minimum size tract; i.e., 4 acres in the above example, the "rollover" policy would apply and would be added to the interest-bearing account. If such subdivision is larger than the minimum size, the new ownership would be a new account charge.

The policy to require the district to make an account charge assessment for each noncontiguous ownership protects the integrity of the irrigated areas and the farmers' entitlement to the interest-free loan permitted by Reclamation law. It also ensures that interest, when appropriate, is charged as required by Reclamation law.

This policy is applicable to all new or amendatory repayment contracts written pursuant to the Reclamation Project Act, the R&B Act, the SRPA, and/or the Distribution System Loans Act, unless documentation in writing prior to the date of this memorandum exists.

#### Economic Investigations and Plan Formulation

Benefit determination of small tracts can also be handled by either treating the water requirement as an M&I function or as a component of irrigation. The preferred method would be the former if M&I is likely to be a project purpose even without the small tracts, or if the small tract water requirement is large enough to constitute a reasonable size M&I purpose. If the small tracts must be treated as a part of the irrigation purpose, benefits should be considered, as a minimum, equal to the per-acre or per-acre-foot benefits from full-time commercial farms. Other alternatives are listed in Reclamation Instructions, Part 116.2.2.C.(2)(g).

#### Classification and Reclassification of Small Tracts

In classification and reclassification work, when an individual tract is 2 acres or less, or is likely to produce less than \$5,000 in gross annual sales regardless of acreage, it will not be necessary or desirable to conduct the land classification studies beyond making that determination. The determination of the expected use and gross crop sales from the small tracts will normally be accomplished by experienced Bureau land classifiers, in consultation with Bureau economists, at the time land class specifications are established for classification or reclassification.

Please include this memorandum in section IX and appropriate subsections of the loose-leaf "Policy Instructions for Repayment, Water Service, and Other Contracts . . ." transmitted to you on February 26, 1980. The original April 15, 1982, memorandum on this subject should be removed.

cc: AS/LW, Associate Solicitor - Energy and Resources  
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W.O. Codes 700, 430